

BLACK HAWK SANITARY DISTRICT
BLACK HAWK, SOUTH DAKOTA

Catherine Haveman
Certified Public Accountant
Rapid City, South Dakota

*Financial
Statements and
Independent
Auditor's Report*

For the Year ended
December 31, 2012

BLACK HAWK SANITARY DISTRICT
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board
Black Hawk Sanitary District
Black Hawk, South Dakota

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Black Hawk Sanitary District as of December 31, 2012 and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated August 9, 2013 which was qualified because Black Hawk Sanitary District does not report donated land and land rights on its financial statements.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings I identified certain deficiencies in internal control that I consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's responses to the findings identified in my audit are described in the accompanying Schedule of Current Audit Findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Catherine Haveman
Certified Public Accountant

August 9, 2013

BLACK HAWK SANITARY DISTRICT
DECEMBER 31, 2012

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Audit Findings:

Finding 2011-1 relating to segregation of duties has not been corrected and is repeated for the current year as finding 2012-1. This is the 10th consecutive audit in which this finding has been reported.

Finding 2011-2 relating to land and land rights has not been corrected and will not be repeated in the current year audit however, the audit report will continued to be qualified for this condition.

Finding 2011-3 relating to preparation of financial statements has not been corrected and is repeated for the current year as finding 2012-2. This is the 6th consecutive audit in which this finding has been reported.

SCHEDULE OF CURRENT AUDIT FINDINGS

Internal Control-Related Findings - Material Weaknesses:

Finding # 2012-1 – Lack of Segregation of Duties

Criteria:

Segregation of duties is an integral part of internal controls over the recording keeping function.

Condition Found:

There is a weakness in the internal controls due to a general lack of segregation of duties over the record keeping function.

Cause:

The duties relating to billing accounts receivable, and receiving, depositing, and reconciling cash are performed by one person.

Effect:

This condition could result in errors in the accounting and record keeping function which may not be detected in a timely manner. This condition also increases the potential for fraud to occur.

Recommendation:

The Board needs to be cognizant of this situation and take an active role in review of financial activities including monthly financial statements, bank statements and disbursements. Customer accounts should be reviewed monthly for unusual adjustments and past due accounts should be reviewed and appropriate action taken. Bank reconciliations should be reviewed for propriety and agreed to the general ledger on a monthly basis by someone other than the preparer. All expenditures should be reviewed and approved by the board.

Management's Response:

The District activities are currently performed primarily by a single board member. There are no employees and hiring of employees is not economically feasible.

BLACK HAWK SANITARY DISTRICT
DECEMBER 31, 2012

SCHEDULE OF CURRENT AUDIT FINDINGS (Continued)

Finding # 2012-2 – Preparation of Financial Statements

Criteria:

An ideal system of internal accounting controls provides for the preparation of the financial statements and accompanying notes.

Condition Found:

The District does not have internal controls in place designed to provide for the preparation of the financial statements and accompanying notes to the financial statements. As auditor, I was requested to draft the financial statements and the accompanying notes.

Effect:

This situation could result in errors and misstatements in the financial statements that would not be prevented or detected by management in the normal course of performing their duties.

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition.

Management's Response:

The Board of Directors will continually review the process for preparation of the financial statements and accompanying notes. The Board is currently willing to accept any risk relating to the preparation of the financial statements.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Black Hawk Sanitary District
Black Hawk, South Dakota

Report on the Financial Statements

I have audited the accompanying financial statements of Black Hawk Sanitary District, Black Hawk, South Dakota, (District) as of December 31, 2012 and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Qualified Opinion on Basic Financial Statements

Black Hawk Sanitary District does not report donated land and land rights on its financial statements. Accounting principles generally accepted in the United States of America require that donated land and land rights are to be valued at fair market value at the time of the donation or at historical cost or estimated historical cost if actual cost is not readily available and, reported as a capital asset. This would increase capital assets reported on the District's financial statements. The amount by which this departure affects capital assets is not determinable.

Qualified Opinion

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary to include land and land rights on the financial statements and had I been able to audit the reported land and land rights, the financial statements referred to above present fairly, in all material respects, the financial position of Black Hawk Sanitary District as of December 31, 2012, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

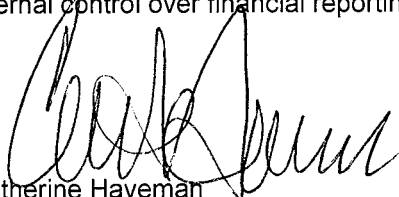
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 7 through 9, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated August 9,, 2013 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Catherine Haveman
Certified Public Accountant

August 9, 2013

BLACK HAWK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

This section presents the Black Hawk Sanitary District's discussion and analysis of the District's financial performance during the fiscal year ended on December 31, 2012. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Black Hawk Sanitary District is a special purpose government organized under Meade County, South Dakota as an incorporated sanitary district with road district powers. The District provides sewer service to 199 homes plus Black Hawk Elementary School, and BJ's Supermarket. We also take care of road repairs, provide streetlights and snow removal.

The Black Hawk Sanitary District operates on money charged to homeowners for service. Current charges are \$50 per month for sewer and \$15 per month for all other expenses of the District.

In addition road tax money is levied and collected by Meade County and remitted to Black Hawk Sanitary District to be used for road repairs and maintenance.

We are working to keep expenses as low as possible and still serve the needs of the elderly and people living on fixed incomes within the District.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements, including related notes.

The financial statement notes explain some of the information in the financial statements and provide more detailed data.

FINANCIAL STATEMENTS

The financial statements report information about the District using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position.

The District operates as a proprietary fund. The District charges a fee to customers to cover the costs of the sanitary services it provides. The District also provides road maintenance which is paid for by a road tax levied by the County and remitted to the District.

BLACK HAWK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

FINANCIAL ANALYSIS OF THE DISTRICT

Net Position

The District's net position decreased by 0.57% between fiscal year 2012 and 2011 – decreasing by \$6,813.

	2011	2012	Change
Current and Other Assets	\$ 527,673	\$ 536,259	1.67%
Capital Assets	1,024,326	985,133	-3.83%
Total Assets	1,551,999	1,521,392	-1.97%
Other Liabilities	23,601	21,269	-9.88%
Long-Term Liabilities Outstanding	346,819	325,357	-6.19%
Total Liabilities	370,420	346,626	-6.42%
Net Position:			
Invested in Capital Assets Net of Related Debt	661,894	643,610	-2.76%
Restricted	25,852	30,922	19.61%
Unrestricted	493,833	500,234	1.30%
Total Net Position	\$ 1,181,579	\$ 1,174,766	-0.58%

The Statement of Net Position reports all financial and capital resources with the exception of land and land rights. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the District, consisting of revenue bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the District's assets and liabilities is its net position.

The District's net position reflect its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens.

The District's restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants.

The remaining balances of net position are unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current year, the District is able to report positive balances in all three categories of net position. The same situation held true for the prior year.

BLACK HAWK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012

BUSINESS-TYPE ACTIVITIES

Operating revenues of the District increased 2.7% to \$170,738 and operating expenses increased by 12.94% to \$187,973

	2011	2012	Change
Total Operating Revenue	\$ 166,246	\$ 170,738	2.70%
Total Operating Expenses	(166,440)	(187,973)	12.94%
Net Operating Income	(194)	(17,235)	-8784%
Total Non-Operating Revenue or Expense	(1,063)	10,422	1080%
Changes In Net Assets	\$ (1,257)	\$ (6,813)	-442%

CAPITAL ASSET ADMINISTRATION

By the end of 2012 the District has invested \$1,386,451 in capital assets consisting primarily of a sewer collection system. During 2012 capital asset purchases consisted of a new computer for \$1225 and asphalt overlay on a portion of the roads for \$15,763.

LONG-TERM DEBT

The District has a sewer revenue bond with a current balance of \$ 341,523. This is a SRF loan obtained through the issuance of revenue bonds and will be repaid with revenue from the sewer system operations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Black Hawk Sanitary District, PO Box 528, Black Hawk, SD 57718.

FINANCIAL STATEMENTS

BLACK HAWK SANITARY DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
December 31, 2012

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$ 508,396
Accounts Receivable, Net	13,465
Unbilled Accounts Receivable	14,398

Total Current Assets	536,259
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Noncurrent Assets:

Capital Assets:	
Improvements Other Than Buildings	1,385,226
Machinery and Equipment	1,225
Less: Accumulated Depreciation (Credit)	(401,318)

Total Noncurrent Assets	985,133
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TOTAL ASSETS	\$ 1,521,392
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LIABILITIES:

Current Liabilities:

Accounts Payable	\$ 5,103
Bonds Payable Current:	
Revenue	16,166

Total Current Liabilities	21,269
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Noncurrent Liabilities:

Bonds Payable:	
Revenue	325,357

Total Noncurrent Liabilities	325,357
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NET POSITION:

Net Investment in Capital Assets	643,610
Restricted for:	
Road Maintenance	30,922
Unrestricted	500,234

Total Net Position	1,174,766
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TOTAL LIABILITIES AND NET POSITION	\$ 1,521,392
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The notes to the financial statements are an integral part of this statement.

BLACK HAWK SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

Operating Revenue:

Charges for Goods and Services	\$ 41,916
Revenue Dedicated to Servicing Debt	127,012
Miscellaneous	1,810

Total Operating Revenue	170,738
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Operating Expenses:

Office Expense	6,029
Sewer Repair and Maintenance	33,054
Utilities	72,564
Insurance	4,829
Professional Fees	15,316
Depreciation	56,181

Total Operating Expenses	187,973
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Operating Income (Loss)	(17,235)
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Nonoperating Revenue (Expense):

Road Repair and Maintenance	(655)
Investment Earnings	2,002
Road Tax	21,488
Interest Expense	(12,413)

Total Nonoperating Revenue (Expense)	10,422
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Change in Net Position	(6,813)
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Net Position - Beginning	1,181,579
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NET POSITION - ENDING	\$ 1,174,766
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The notes to the financial statements are an integral part of this statement.

BLACK HAWK SANITARY DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipt from Customers	\$ 171,905
Payments to Suppliers	(134,677)
Net Cash Provided (Used) by Operating Activities	37,228
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Road Tax Receipts	21,488
Road Repair and Maintenance	(655)
Net Cash Provided (Used) by noncapital financing Activities	20,833
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Capital Assets	(16,989)
Principal Paid on Capital Debt	(20,909)
Interest Paid on Capital Debt	(12,413)
Net Cash Provided (Used) by capital and related financing Activities	(50,311)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Earnings	2,002
Net Cash Provided (Used) by Investing Activities	2,002
Net Increase (Decrease) in Cash and Cash Equivalents	9,752
Cash and Cash Equivalents - Beginning	498,644
Cash and Cash Equivalents - Ending	\$ 508,396
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Loss	\$ (17,235)
Add Non-Cash Adjustments:	
Depreciation	56,181
	38,946
Change in Assets and Liabilities:	
Receivables	1,167
Payables and Liabilities	(2,885)
	(1,718)
Net Cash Provided by Operating Activities	\$ 37,228

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Black Hawk Sanitary District
Notes to the Financial Statements
December 31, 2012

Note 1. Summary of Significant Accounting Policies:

a. Financial Reporting Entity:

Black Hawk Sanitary District (District) was formed pursuant to the provisions of South Dakota Codified Law 34A-5 as an incorporated sanitary district with road district powers. The basic operations of the District include construction, operation and maintenance of sewage disposal facilities and road construction and maintenance and are financed by user charges and a road tax levy. These operations are accounted for in an enterprise fund and reported as such.

The reporting entity of the Black Hawk Sanitary District consists of one enterprise fund which includes all accounts of the primary government – Black Hawk Sanitary District. Component units are legally separate organization for which the elected officials of the primary government are financially accountable. The District is not included in any other governmental entity as a component unit. There are no component units which are required to be included in the District's reporting entity.

b. Basis of Presentation:

All activities of the District are accounted for within a single proprietary (enterprise) fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. *The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)*
- b. *Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.*
- c. *The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).*

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

In the financial statements the "economic resources" measurement focus and the accrual basis of accounting are applied to proprietary fund types.

Black Hawk Sanitary District
Notes to the Financial Statements
December 31, 2012

Note 1. Summary of Significant Accounting Policies: (Continued)

c. Measurement Focus and Basis of Accounting: (Continued)

Basis of Accounting:

All proprietary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. *Infrastructure assets* are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

Capital assets are recorded at historical cost. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For Capital Assets, construction-period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an expense in the financial statements.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide financial statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Improvements other than buildings	\$ 500	Straight-line	25 yrs.
Machinery and Equipment	\$ 500	Straight-line	5 yrs.
Infrastructure-Roads and Sidewalks	\$ 500	Straight-line	15-20 yrs.

f. Long-Term Liabilities:

The accounting for proprietary fund long-term debt is on the accrual basis.

g. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Black Hawk Sanitary District
Notes to the Financial Statements
December 31, 2012

Note 1. Summary of Significant Accounting Policies: (Concluded)

h. Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, the District considers all highly liquid investments as deposits with a term to maturity of three months or less, at date of acquisition, to be cash equivalents.

i. Equity Classifications:

Equity is classified as Net Position and is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints places on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

j. Application of Net Position:

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Note 2. Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk:

Deposits – The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1 and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk – State law limits eligible investments for the District, as discussed above. The District has no investment policy that would further limit its investment choices.

The District held no investments during the year or as of December 31, 2012.

Black Hawk Sanitary District
Notes to the Financial Statements
December 31, 2012

Note 3. Receivables and Payables:

Receivables and payables are not aggregated in these financial statements. The District expects all receivables to be collected within one year. An allowance for estimated uncollectibles in the amount of \$8,666 has been established.

Note 4. Road Tax Revenue:

Road taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

Note 5. Changes In General Capital Assets:

A summary of changes in capital assets for the year ended December 31, 2012 is as follows:

	Balance 01/01/2012	Increases	Decreases	Balance 12/31/2012
Improvements Other Than Buildings	1,369,463	15,763	-0-	1,385,226
Machinery and Equipment	-0-	1,225	-0-	1,225
Total, being depreciated	1,369,463	16,989	-0-	1,386,451
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	345,137	56,058	-0-	401,195
Machinery and Equipment	-0-	123	-0-	123
Total Accumulated Depreciation	345,137	56,181	-0-	401,318
Capital Assets - Net	<u>\$ 1,024,326</u>	<u>\$ 39,192</u>	<u>\$ -0-</u>	<u>\$ 985,133</u>

Note 6. Long-Term Liabilities:

A summary of changes in long-term liabilities follows:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012	Due Within One Year
Business-Type Activities:					
Bonds Payable:					
Revenue	<u>\$ 362,432</u>	<u>\$ -0-</u>	<u>\$ 2,909</u>	<u>\$ 341,523</u>	<u>\$ 16,166</u>

Debt payable at December 31, 2012 is comprised of the following:

Revenue Bonds:

SRF – Sewer Revenue Bond; payable in 80 quarterly installments of \$8,330. Bears interest of 3.5% per annum. This loan will be paid in full in 2025.

\$ 341,523

Black Hawk Sanitary District
Notes to the Financial Statements
December 31, 2012

Note 6. Long-Term Liabilities: (Continued)

The Sewer Revenue Bond was issued in 2003 for the purpose of construction of facilities necessary to convey wastewater to the Rapid City Wastewater Reclamation Facility. The bond contains provisions which pledge the future net revenues of the customers of the sewer system, including investment income, as security for future principal and interest payments.

The annual requirements to amortize all debt outstanding as of December 31, 2012, except for compensated absences are as follows:

Annual Requirements to Amortize Long-Term Debt
December 31, 2012

Year Ending Dec. 31,	Revenue Bonds	
	Principal	Interest
2013	\$16,166	\$ 8,824
2014	22,223	11,098
2015	23,011	10,310
2016	23,827	9,494
2017	24,672	8,649
2018 – 2022	137,121	29,514
2022 – 2025	<u>94,503</u>	<u>5,459</u>
TOTAL	<u>\$341,523</u>	<u>\$83,348</u>

Note 7. Operating Leases:

The District leases office space under an operating lease agreement calling for quarterly payments of \$975. This lease is renewable annually.

Note 8. Risk Management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the period ended December 31, 2012, the Municipality managed its risks as follows:

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.